

ORIGINAL

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MEMORANDUM

Arizona Corporation Commission

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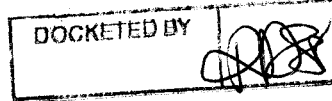
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ARIZONA CORPORATION COMMISSION
DOCKET CONTROL

TO: THE COMMISSION

FROM: Utilities Division

DATE: February 1, 2012



RE: MORENCI WATER & ELECTRIC COMPANY – ELECTRIC DIVISION –
APPLICATION FOR APPROVAL OF ITS 2012 AND 2013 RENEWABLE
ENERGY STANDARD TARIFF IMPLEMENTATION PLAN AND REQUEST FOR
PARTIAL WAIVER (DOCKET NO. E-01049A-11-0265)

Background

On July 1, 2011, Morenci Water & Electric Company ("MWE") filed its 2012 and 2013 Renewable Energy Standard Tariff ("REST") Implementation Plan ("2012-2013 Plan") in compliance with Arizona Administrative Code ("A.A.C.") R14-2-1801 through R14-2-1816. MWE's 2012-2013 Plan includes a Plan for Eligible Renewable Energy Resources and a Plan for Distributed Renewable Energy Resources.

MWE's application includes a request for a two-year approval of the plan (2012 and 2013), with a waiver of the annual plan filing requirement for the 2013 calendar year. MWE is also requesting a two-year extension of the continued partial waiver to exclude energy sales to Freeport-McMoRan Copper & Gold, Inc. ("FMI") mining operations at Morenci and Safford from the calculation of both the Annual Renewable Energy Requirement under A.A.C. R14-2-1804, and the Distributed Renewable Energy Requirement under A.A.C. R14-2-1805.

According to MWE's REST Compliance Report for 2010, a total of 771,562 kWh of renewable energy was procured that year. The procured renewable energy was equal to MWE's annual requirement for 2010, and originated from renewable energy credits ("RECs") purchased from Tucson Electric Power Company ("TEP"). MWE has indicated that in 2011 and 2012 it will also use RECs purchased from TEP to fulfill its total annual REST requirement. MWE states that it is planning on making a procurement of Renewable Energy Resources in 2013 to meet multiple years of future total Renewable Energy Requirements. According to MWE, it has not undertaken any company-owned renewable energy generation projects in its service territory.

MWE's Distributed Renewable Energy Requirement for 2010 was 154,312 kWh. MWE has reported completion of three customer-sited distributed energy projects during this past year. All three projects were non-residential solar photovoltaic ("PV") systems with a combined output of approximately 83 kW. Despite these projects, MWE did not meet its 2010 REST distributed renewable energy requirement, and will likely not meet its 2011 distributed energy requirement pursuant to A.A.C. R14-2-1805.

The 2012 and 2013 REST Implementation Plan**Waiver to Exclude Energy Sales**

MWE indicates in its 2012-2013 Plan that it currently owns no generation and procures all of its energy from the wholesale market to meet load. According to MWE, it serves approximately 2,336 customers (2,068 residential customers, 266 non-residential customers with loads below 3 MW, and the 2 FMI mining customers). Energy sales to the two FMI mines totaled approximately 1,449,339 MWh which represents approximately 98 percent of MWE's total kWh sales in 2010. MWE notes that this concentration of load amongst two large customers is unique when compared to all other electric utilities in the state.

In Decision No. 70303 (April 24, 2008), MWE requested and received a partial waiver excluding energy sales to the two FMI mines from the calculations of the Annual Renewable Energy Requirement under A.A.C. R14-2-1804 and the annual Distributed Renewable Energy Requirement under A.A.C. R14-2-1805. The Commission extended the waiver for 2009 in Decision No. 70952 (April 7, 2009), for 2010 in Decision No. 71469 (January 26, 2010), and for 2011 in Decision No. 72230 (March 9, 2011). MWE requests that the partial waiver remain in effect for 2012 and 2013.

Table I, below, illustrates the differences in REST Rule requirements, with and without sales to the FMI mines, based on MWE's forecast of approximately 1,600,000 MWh of annual energy sales. The difference between the amounts of required renewable energy and required distributed energy with and without the FMI mine sales is several orders of magnitude, thus, MWE's request for continuation of the partial waiver.

Table I
Annual REST Rule Requirements

	2012		2013	
	ARER¹	DE²	ARER	DE
REST Rule % Requirement	3.5%	30%	4%	30%
Requirement incl. FMI Mines	56,000 MWh	16,800 MWh	64,000 MWh	19,200 MWh
Requirement w/o FMI Mines	840 MWh	252 MWh	960 MWh	288 MWh

MWE calculates that it would cost \$1,764,000 to procure the additional 34,200 MWhs of renewable energy in 2012 if the sales to FMI mines were included when calculating the Annual Renewable Energy Requirement, assuming a \$45/MWh premium for renewable energy. MWE

¹ Annual Renewable Energy Requirement as percentage of annual gross energy sales.

² Annual Distributed Renewable Energy Requirement as percentage of Annual Renewable Energy Requirement.

states that approximately an additional \$35 million would be necessary to fulfill the annual Distributed Renewable Energy Resources requirement in 2012 if FMI mine loads are included.³ MWE states that under such a scenario, it would be forced to raise the REST surcharge and monthly caps to a level that would be unsustainable for its customers.

Procurement of Eligible Renewable Resources

Under the 2012-2013 Plan, MWE would continue to procure Eligible Renewable Energy Resources from one or more sources. MWE states that it cannot be specific about its procurement sources because of uncertainties related to operational performance, deliverability of such resources and the need to match deliveries with dispatch schedules. Nevertheless, MWE states that it will “make best efforts” to procure the necessary amounts of Eligible Renewable Energy Resources, with a planned multi-year procurement anticipated in 2013.

The following Table II summarizes MWE’s renewable energy procurement plans:

Table II
Planned Renewable Energy Procurement

	2012	2013	2014	2015	2016
Prospective Procurement (MWh)	588 ⁴	672	756	840	1,008
Anticipated Cost (\$)⁵	26,460	30,240	34,020	37,800	45,360

Procurement of Distributed Renewable Energy Resources

MWE intends to continue offering incentives to customers that install qualified renewable energy systems. All incentives would remain the same, except for solar electric (PV) residential installations where MWE proposes to lower the incentive from \$4.00/watt (DC) to \$3.50/watt (DC). However, Staff believes that the solar electric (PV) - residential incentive should remain at \$4.00/watt, given the historic lack of participation by the residential customer class. MWE’s proposed incentives for distributed renewable energy resources are presented in the following Table III:

³ MWE assumes that distributed energy systems would be built at the cost of approximately \$7.60 per watt as reported in the Lawrence Berkley National Laboratory report entitled “Tracking the Sun: The Installed Cost of Photovoltaics in the U.S. from 1998-2007.”

⁴ MWE’s 2012 Renewable energy Requirement was actually purchased in 2009.

⁵ Based on a premium for renewable generation of approximately \$45 per MWh.

Table III
Incentives for Distributed Renewable Energy Resources

System Type	2012 – 2016 Incentives
Biomass/Biogas (electric, thermal, cooling)	TBD
Biomass/Biogas CHP (electric & thermal)	TBD
Daylighting	\$0.20/kWh of first year energy savings only.
Geothermal (electric)	\$0.50/Watt
Geothermal (thermal)	\$1.00/Watt
Hydroelectric	TBD
Small wind generators	\$2.50/Watt AC
Solar electric (PV) - Residential	\$3.50/Watt DC
Solar electric (PV) - Non-residential	\$3.50/Watt DC
Solar Space Cooling	TBD
Non-residential Solar Water Heating/Space Heating	TBD
Residential Solar Water Heating/Space Heating	\$0.75/kWh for the first year of service only.
Non-residential Pool Heating	TBD

Funds for any one project would not exceed 60 percent of the total project cost (including financing) with a maximum incentive not to exceed \$75,000. Amounts noted as “TBD” are for technologies that require the applicant to submit an engineering report from a licensed, professional engineer that includes anticipated energy savings and the designed output for the system. MWE would then review the submission to validate anticipated energy savings and set a project-specific incentive based on the anticipated energy savings.

Staff notes that MWE has successfully incented the installation of distributed renewable energy systems at three locations in its service territory, the first installations since the REST Rules were adopted. Based on this recent program success, Staff recommends continuation of MWE’s existing incentive structure.

As required by R14-2-1809, MWE has prepared a Customer Self-Directed Renewable Energy Option (“Self-Directed Option”) tariff by which an eligible customer may apply to MWE to receive funds to install distributed renewable energy resources. Per the REST Rules, the amount of funds available may not exceed the amount annually paid into the REST fund by the eligible customer. MWE proposes to maintain its current Self-Directed Option tariff.

Budget

When preparing its budget for the 2012 Plan, MWE has assumed that the Commission will extend its waiver to exclude energy sales to the FMI mines. Based on this assumption, MWE has submitted the following REST Implementation Plan budget.

**Table IV
MWE Proposed Budget**

	2012	2013	2014	2015	2016	Total
Renewable Energy Resources						
Total Renewable Energy – Prospective Procurement (Eligible Renewable Resources)	\$26,460	\$30,240	\$34,020	\$37,800	\$45,360	\$173,880
Administration, implementation, commercialization & integration	\$9,000	\$9,000	\$9,000	\$9,000	\$9,000	\$45,000
Renewable Energy - Subtotal	\$35,460	\$39,240	\$43,020	\$46,800	\$54,360	\$218,880
Distributed Renewable Energy Resources						
Incentives	\$398,480	\$460,970	\$548,460	\$623,450	\$858,200	\$2,889,560
Administration, implementation, commercialization & integration	\$20,000	\$20,000	\$20,000	\$20,000	\$20,000	\$100,000
Distributed Energy - Subtotal	\$418,480	\$480,870	\$568,460	\$643,450	\$878,200	\$2,989,560
TOTAL	\$453,940	\$520,210	\$611,480	\$690,250	\$932,560	\$3,208,440

MWE states that this budget has not been used to calculate the Renewable Energy Standard Surcharge (“RESS”). Rather, the budget is submitted to demonstrate the level of funding required to meet the Distributed Renewable Energy Requirement.

MWE currently collects a RESS of \$0.004988 per kWh. MWE proposes to leave the RESS unchanged in its 2012-2013 Plan. RESS collections are capped as follows, with no change proposed for the 2012-2013 Plan:

- \$1.05 per month for each residential customer;
- \$39.00 per month for each non-residential customer;
- \$117.00 per month for each non-residential customer with demand over 3 MW per month for three consecutive months.

Based on its current customer census, the maximum amount MWE could collect through the RESS equals approximately:

- \$26,057 per year from residential customers;
- \$75,204 per year from non-residential customers;
- \$2,808 per year from non-residential customers >3MW; for
- A total no greater than \$104,069.

However, MWE states that it is unlikely it will collect the maximum amount. MWE estimates that it will collect between \$50,000 and \$60,000 from customers through the RESS in 2012 and 2013. With the partial waiver of the FMI mines load, the RESS may provide sufficient funding for MWE to meet its total REST Rule requirements through the purchase of grid-tied Eligible Renewable Energy Resources in 2012 and 2013. This level of funding will not be sufficient to meet the annual Distributed Renewable Energy Requirement.

MWE states that it does not believe that raising the RESS rates or monthly caps is necessary or appropriate at this time as there has been no further interest from customers to install distributed renewable generation. MWE states that it would file to amend the RESS if and when customer interest is at a level warranting a higher collection.

Staff believes that the RESS funding that MWE receives from its two largest customers is disproportionately low when compared to other customer classes, in light of the substantial energy consumed by the FMI mines. Table VI below illustrates the discrepancy between the amount of energy consumed versus the amount contributed to the RES fund by customer class.

Table V
Energy Consumption vs Current RES Contributions by Customer Class

Customer Class	Estimated 2012 Sales (kWh)	% of Total Sales	Estimated Maximum RESS Collections	% of Total RESS Contributions
Residential	15,931,093	0.9	\$26,057	25.0
Commercial	16,301,303	0.9	\$75,204	72.3
Industrial >3MW	1,648,988,910	98.1	\$2,808	2.7
Annual Total	1,681,221,306		\$104,069	

Therefore, Staff recommends that the RESS surcharge collection cap for non-residential customers with loads greater than 3MW be raised to \$500 per month which would equate to an annual contribution of approximately 5.6 percent of total maximum RES collections.

Table VI
Energy Consumption vs Staff's Proposed RES Contributions by Customer Class

Customer Class	Estimated 2012 Sales (kWh)	% of Total Sales	Estimated Maximum RESS Collections	% of Total RESS Collections
Residential	15,931,093	0.9	\$26,057	24.3
Commercial	16,301,303	0.9	\$75,204	70.1
Industrial >3MW	1,648,988,910	98.1	\$6,000	5.6
Annual Total	1,681,221,306		\$107,261	

Based on MWE's anticipated actual collections through the RESS, and utilizing the increased collection cap on large industrial customers, Staff is proposing an alternative annual budget for 2012.

Table VII
Staff's Proposed Budget

	2012 MWE	2012 Staff
Total Renewable Energy - Prospective Procurement (Eligible Renewable Resources)	\$26,460	\$26,460 ⁶
Administration, implementation, commercialization & integration	\$9,000	\$9,000
Renewable Energy - Subtotal	\$35,460	\$35,460
Incentives	\$398,480	\$55,425
Administration, implementation, commercialization & integration	\$20,000	\$6,000
Distributed Energy Subtotal	\$418,480	\$61,425
TOTAL	\$453,940	\$96,885

Staff's analysis of MWE's 2012-2013 Plan confirms that the customer load profile of MWE is unusual and makes compliance with REST Rules difficult at best. However, Staff also believes that there may be opportunities for the implementation of significant levels of distributed generation at the facilities of MWE's largest customers, FMI Morenci and FMI Safford. Staff recommends that MWE be ordered to work cooperatively with FMI Morenci and FMI Safford to explore opportunities for customer-sited distributed generation facilities. MWE shall prepare a comprehensive report documenting these discussions. Said report shall be docketed with the Commission with MWE's 2013 Implementation Plan.

Tariffs and Plan Schedule

MWE has stated that because there have been few applications submitted for incentives for eligible distributed renewable energy resources, increasing the RES surcharge and monthly caps is not justified at this time. In addition, MWE states that any unused funds collected would continue to be rolled over to help fund future year's REST requirements. Therefore, MWE proposes that its Distributed Renewable Energy Resources Schedule tariff, Customer Self-Directed Renewable Energy Option tariff, and Renewable Energy Standard Surcharge Schedule tariff currently on file would remain in effect through 2013, with MWE filing its next REST Plan for approval on July 1, 2013.

However, Staff believes that there is sufficient uncertainty regarding MWE's 2012-2013 REST Plan, especially in light of MWE's anticipated multi-year procurement of RECs in 2013.

⁶ MWE's Renewable Energy Resources for 2012 were actually purchased in 2009.

Therefore, Staff recommends that MWE be ordered to file its 2013 REST Plan on the normal schedule, as dictated by A.A.C. R14-2-1813.

Staff's Concerns About REST Plan Formats

Staff is concerned that the REST Implementation Plans and REST Compliance Reports are so diverse in format and content that it is difficult, if not impossible, for Staff and the Commissioners to compare the programs and results from one utility to another. Staff believes that, by developing a standardized template format for both the Implementation Plans and Compliance Reports, Staff, Commissioners, industry stakeholders and the general public will better be able to consider and compare the plans and performance of all Arizona utilities subject to the REST Rules.

In order for the public and the Commission to better understand the Utility Plans and Compliance Reports, Staff believes that the utilities should work cooperatively to develop a template for detailed spreadsheets that viewers can download and work with to explore alternative scenarios. The detailed spreadsheets shall be in native format, including the assumptions used by the utilities and the data to support the utility calculations. Care must be taken to protect competitively confidential information, so that information would be redacted in the public version.

Staff recommends that the Commission order MWE to work with Arizona Public Service and Tucson Electric Power Company in an effort to establish a REST Format Working Group that would meet periodically with all other utility representatives to develop standardized template formats for both REST Implementation Plans and REST Compliance Reports. Staff recognizes that each utility is unique in a number of ways, so Staff suggests that templates have two parts: mandatory information and optional/other information. The first part would be detailed and identical in format. The second part would be an optional portion with a flexible format that would vary by utility. The Working Group would solicit input, suggestions, and detailed recommendations from stakeholders and the general public. In addition to developing the templates of Implementation Plans and Compliance Reports, the Working Group would develop templates for detailed spreadsheets that would be made available to the public on both the utility website and the ArizonaGoesSolar.org website.

The Working Group would docket a report with its recommendations, for Staff approval, no later than September 1, 2012. The effective date for use of the templates would be April 1, 2013, for the 2012 Compliance Reports and July 1, 2013, for the 2014 REST Implementation Plans.

Staff Recommendations

Staff recommends approval of the 2012 portion only of MWE's proposed 2012-2013 REST Implementation Plan as modified and discussed herein.

Staff further recommends that MWE be ordered to file its 2013 REST Plan on the normal schedule, as dictated by A.A.C. R14-2-1813.

Staff further recommends that the solar electric (PV) - residential incentive remain at \$4.00/watt and the cap on RESS collections for the non-residential class with loads greater than 3 MW be increased to \$500 per month.

Staff further recommends a REST budget amount for year 2012 of \$96,885.

Staff further recommends that MWE's request to exclude energy sales to the FMI mines from the calculation of both the Annual Renewable Energy Requirement under A.A.C. R14-2-1804 and the annual Distributed Renewable Energy Requirement under A.A.C. R14-2-1805 be granted for 2012.

Staff recommends that MWE be ordered to work cooperatively with FMI Morenci and FMI Safford to explore opportunities for customer-sited distributed generation facilities. MWE should prepare a comprehensive report documenting these discussions. Said report should be docketed with the Commission with MWE's 2013 Implementation Plan.

Staff further recommends that MWE be ordered to participate in the REST Format Working Group as discussed herein.

Staff further recommends that MWE file its RESS tariff in compliance with the Decision in this case within 15 days of the effective date of the Decision.



Steven M. Olea
Director
Utilities Division

SMO:RBL:lhms/SH

ORIGINATOR: Rick Lloyd

1 **BEFORE THE ARIZONA CORPORATION COMMISSION**

2 GARY PIERCE
 Chairman

3 BOB STUMP
 Commissioner

4 SANDRA D. KENNEDY
 Commissioner

5 PAUL NEWMAN
 Commissioner

6 BRENDA BURNS
 Commissioner

7
8 IN THE MATTER OF MORENCI WATER &) DOCKET NO. E-01049A-11-0265
9 ELECTRIC COMPANY - ELECTRIC)
10 DIVISION – APPLICATION FOR) DECISION NO. _____
11 APPROVAL OF ITS 2012 AND 2013)
12 RENEWABLE ENERGY STANDARD) ORDER
13 TARIFF IMPLEMENTATION PLAN AND)
14 REQUEST FOR PARTIAL WAIVER)
15)
16)

17
18 Open Meeting
19 February 14 and 15, 2012
20 Phoenix, Arizona

21 BY THE COMMISSION:

22 FINDINGS OF FACT

23 1. Morenci Water & Electric Company ("MWE") is certificated to provide electric
24 service as a public service corporation in the state of Arizona.

25 Background

26 2. On July 1, 2011, MWE filed its 2012 and 2013 Renewable Energy Standard Tariff
27 ("REST") Implementation Plan ("2012-2013 Plan") in compliance with Arizona Administrative
28 Code ("A.A.C.") R14-2-1801 through R14-2-1816. MWE's 2012-2013 Plan includes a Plan for
Eligible Renewable Energy Resources and a Plan for Distributed Renewable Energy Resources.

 3. MWE's application includes a request for a two-year approval of the plan (2012 and
2013), with a waiver of the annual plan filing requirement for the 2013 calendar year. MWE is
also requesting a two-year extension of the continued partial waiver to exclude energy sales to
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1 the calculation of both the Annual Renewable Energy Requirement under A.A.C. R14-2-1804, and
2 the Distributed Renewable Energy Requirement under A.A.C. R14-2-1805.

3 4. According to MWE's REST Compliance Report for 2010, a total of 771,562 kWh
4 of renewable energy was procured that year. The procured renewable energy was equal to MWE's
5 annual requirement for 2010, and originated from renewable energy credits ("RECs") purchased
6 from Tucson Electric Power Company ("TEP"). MWE has indicated that in 2011 and 2012 it will
7 also use RECs purchased from TEP to fulfill its total annual REST requirement. MWE states that
8 it is planning on making a procurement of Renewable Energy Resources in 2013 to meet multiple
9 years of future Renewable Energy Requirements. According to MWE, it has not undertaken any
10 company-owned renewable energy generation projects in its service territory.

11 5. MWE's Distributed Renewable Energy Requirement for 2010 was 154,312 kWh.
12 MWE has reported completion of three customer-sited distributed energy projects during this past
13 year. All three projects were non-residential solar photovoltaic ("PV") systems with a combined
14 output of approximately 83 kW. Despite these projects, MWE did not meet its 2010 REST
15 distributed renewable energy requirement, and will likely not meet its 2011 distributed energy
16 requirement pursuant to A.A.C. R14-2-1805.

17 **The 2012 and 2013 REST Implementation Plan**

18 Waiver to Exclude Energy Sales

19 6. MWE indicates in its 2012-2013 Plan that it currently owns no generation and
20 procures all of its energy from the wholesale market to meet load. According to MWE, it serves
21 approximately 2,336 customers (2,068 residential customers, 266 non-residential customers with
22 loads below 3 MW, and the 2 FMI mining customers). Energy sales to the two FMI mines totaled
23 approximately 1,449,339 MWh which represents approximately 98 percent of MWE's total kWh
24 sales in 2010. MWE notes that this concentration of load amongst two large customers is unique
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26 7. In Decision No. 70303 (April 24, 2008), MWE requested and received a partial
27 waiver excluding energy sales to the two FMI mines from the calculations of the Annual
28 Renewable Energy Requirement under A.A.C. R14-2-1804 and the annual Distributed Renewable

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8. Table I, below, illustrates the differences in REST Rule requirements, with and without sales to the FMI mines, based on MWE's forecast of approximately 1,600,000 MWh of annual energy sales. The difference between the amounts of required renewable energy and required distributed energy with and without the FMI mine sales is several orders of magnitude, thus, MWE's request for continuation of the partial waiver.

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¹ Annual Renewable Energy Requirement as percentage of annual gross energy sales.

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³ MWE assumes that distributed energy systems would be built at the cost of approximately \$7.60 per watt as reported in the Lawrence Berkley National Laboratory report entitled "Tracking the Sun: The Installed Cost of Photovoltaics in the U.S. from 1998-2007".

Procurement of Eligible Renewable Resources

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Table III
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System Type	2012 – 2016 Incentives
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Biomass/Biogas CHP (electric & thermal)	TBD
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1	Geothermal (thermal)	\$1.00/Watt
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3	Small wind generators	\$2.50/Watt AC
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 15 project-specific incentive based on the anticipated energy savings.

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 17 renewable energy systems at three locations in its service territory, the first installations since the
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24 **Budget**

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 27 assumption, MWE has submitted the following REST Implementation Plan budget.

28 ...

Table IV
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- 5 • \$2,808 per year from non-residential customers >3MW; for
- 6 • A total no greater than \$104,069.

7 20. However, MWE states that it is unlikely it will collect the maximum amount.
8 MWE estimates that it will collect between \$50,000 and \$60,000 from customers through the
9 RESS in 2012 and 2013. With the partial waiver of the FMI mines load, the RESS may provide
10 sufficient funding for MWE to meet its total REST Rule requirements through the purchase of
11 grid-tied Eligible Renewable Energy Resources in 2012 and 2013. This level of funding will not
12 be sufficient to meet the annual Distributed Renewable Energy Requirement.

13 21. MWE states that it does not believe that raising the RESS rates or monthly caps is
14 necessary or appropriate at this time as there has been no further interest from customers to install
15 distributed renewable generation. MWE states that it would file to amend the RESS if and when
16 customer interest is at a level warranting a higher collection.

17 22. Staff believes that the RESS funding that MWE receives from its two largest
18 customers is disproportionately low when compared to other customer classes, and in light of the
19 substantial energy consumed by the FMI mines. Table VI below illustrates the discrepancy
20 between the amount of energy consumed versus the amount contributed to the RES by customer
21 class.

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Table V
Energy Consumption vs Current RES Contributions by Customer Class

Customer Class	Estimated 2012 Sales (kWh)	% of Total Sales	Estimated Maximum RESS Collections	% of Total RESS Contributions
Residential	15,931,093	0.9	\$26,057	25.0
Commercial	16,301,303	0.9	\$75,204	72.3
Industrial >3MW	1,648,988,910	98.1	\$2,808	2.7
Annual Total	1,681,221,306		\$104,069	

24. Therefore, Staff recommends that the RESS surcharge collection cap for non-residential customers with loads greater than 3 MW be raised to \$500 per month which would equate to an annual contribution of approximately 5.6 percent of total maximum RES collections.

Table VI
Energy Consumption vs Staff's Proposed Contributions by Customer Class

Customer Class	Estimated 2012 Sales (kWh)	% of Total Sales	Estimated Maximum RESS Collections	% of Total RESS Collections
Residential	15,931,093	0.9	\$26,057	24.3
Commercial	16,301,303	0.9	\$75,204	70.1
Industrial >3MW	1,648,988,910	98.1	\$6,000	5.6
Annual Total	1,681,221,306		\$107,261	

25. Based on MWE's anticipated actual collections through the RESS, Staff is proposing a smaller annual budget for 2012.

Table VII
Staff's Proposed Budget

	2012 MWE	2012 Staff
Total Renewable Energy - Prospective Procurement (Eligible Renewable Resources)	\$26,460 ⁶	\$26,460
Administration, implementation, commercialization & integration	\$9,000	\$9,000
Renewable Energy - Subtotal	\$35,460	\$35,460
Incentives	\$398,480	\$55,425
Administration, implementation, commercialization & integration	\$20,000	\$6,000
Distributed Energy Subtotal	\$418,480	\$61,425
TOTAL	\$453,940	\$96,885

26. Staff's analysis of MWE's 2012-2013 Plan confirms that the customer load profile of MWE is unusual and makes compliance with REST Rules difficult at best. However, Staff also believes that there may be opportunities for the implementation of significant levels of distributed generation at the facilities of MWE's largest customers, FMI Morenci and FMI Safford. Staff has recommended that MWE be ordered to work cooperatively with FMI Morenci and FMI Safford to explore opportunities for customer-sited distributed generation facilities. MWE shall prepare a comprehensive report documenting these discussions. Said report shall be docketed with the Commission with MWE's 2013 Implementation Plan.

Tariffs and Plan Schedule

27. MWE has stated that because there have been few applications submitted for incentives for eligible distributed renewable energy resources, increasing the RES surcharge and monthly caps is not justified at this time. In addition, MWE states that any unused funds collected would continue to be rolled over to help fund future year's REST requirements. Therefore, MWE proposes that its Distributed Renewable Energy Resources Schedule tariff, Customer Self-Directed Renewable Energy Option tariff, and Renewable Energy Standard

⁶ MWE's Renewable Energy Resources for 2012 were actually purchased in 2009.

1 Surcharge Schedule tariff currently on file would remain in effect through 2013, with MWE filing
2 its next REST Plan for approval on July 1, 2013.

3 28. However, Staff believes that there is sufficient uncertainty regarding MWE's 2012-
4 2013 REST Plan, especially in light of MWE's anticipated multi-year procurement of RECs in
5 2013, such that MWE should be ordered to file its 2013 REST Plan on the normal schedule, as
6 dictated by A.A.C. R14-2-1813.

7 **Staff's Concerns About REST Plan Formats**

8 29. Staff is concerned that the REST Implementation Plans and REST Compliance
9 Reports are so diverse in format and content that it is difficult, if not impossible, for Staff and the
10 Commissioners to compare the programs and results from one utility to another. Staff believes
11 that, by developing a standardized template format for both the Implementation Plans and
12 Compliance Reports, Staff, Commissioners, industry stakeholders and the general public will
13 better be able to consider and compare the plans and performance of all Arizona utilities subject to
14 the REST Rules.

15 30. In order for the public and the Commission to better understand the Utility Plans
16 and Compliance Reports, Staff believes that the utilities should work cooperatively to develop a
17 template for detailed spreadsheets that viewers can download and work with to explore alternative
18 scenarios. The detailed spreadsheets shall be in native format, including the assumptions used by
19 the utilities and the data to support the utility calculations. Care must be taken to protect
20 competitively confidential information, so that information would be redacted out in the public
21 version.

22 31. Staff has recommended that the Commission order MWE to work with Arizona
23 Public Service and Tucson Electric Power Company in an effort to establish a REST Format
24 Working Group that would meet periodically with all other utility representatives to develop
25 standardized template formats for both REST Implementation Plans and REST Compliance
26 Reports. Staff recognizes that each utility is unique in a number of ways, so Staff suggests that the
27 templates have two parts: mandatory information and optional/other information. The first part
28 would be detailed and identical in format. The second part would be an optional portion with a

1 flexible format that would vary by utility. The Working Group would solicit input, suggestions,
2 and detailed recommendations from stakeholders and the general public. In addition to developing
3 the templates of Implementation Plans and Compliance Reports, the Working Group would
4 develop templates for detailed spreadsheets that would be made available to the public on both the
5 utility website and the ArizonaGoesSolar.org website.

6 32. The Working Group would docket a report with its recommendations, for Staff
7 approval, no later than September 1, 2012. The effective date for use of the templates would be
8 April 1, 2013, for the 2012 Compliance Reports and July 1, 2013, for the 2014 REST
9 Implementation Plans.

10 **Staff Recommendations**

11 33. Staff has recommended approval of the 2012 portion only of MWE's proposed
12 2012-2013 REST Implementation Plan as modified and discussed herein.

13 34. Staff has further recommended that MWE be ordered to file its 2013 REST Plan on
14 the normal schedule, as dictated by A.A.C. R14-2-1813.

15 35. Staff has further recommended that the solar electric (PV) – residential incentive
16 remain at \$4.00/watt and the cap on RESS collections for the non-residential class with loads
17 greater than 3 MW be increased to \$500 per month.

18 36. Staff has further recommended a REST budget amount for year 2012 of \$96,885.

19 37. Staff has further recommended that MWE's request to exclude energy sales to the
20 FMI mines from the calculation of both the Annual Renewable Energy Requirement under A.A.C.
21 R14-2-1804 and the annual Distributed Renewable Energy Requirement under A.A.C. R14-2-1805
22 be granted for 2012.

23 38. Staff has further recommended that MWE be ordered to work cooperatively with
24 FMI Morenci and FMI Safford to explore opportunities for customer-sited distributed generation
25 facilities. MWE should prepare a comprehensive report documenting these discussions. Said
26 report should be docketed with the Commission with MWE's 2013 Implementation Plan.

27 39. Staff has further recommended that MWE be ordered to participate in the REST
28 Format Working Group as discussed herein.

40. Staff has further recommended that MWE file its RESS tariff in compliance with the Decision in this case within 15 days of the effective date of the Decision.

CONCLUSIONS OF LAW

1. Morenci Water & Electric Company is an Arizona public service corporation within the meaning of Article XV, Section 2, of the Arizona Constitution.

2. The Commission has jurisdiction over Morenci Water & Electric Company and over the subject matter of the application.

3. The Commission, having reviewed the application and Staff's memorandum dated February 1, 2012, concludes that it is in the public interest to approve the 2012 REST Implementation Plan as modified and discussed herein.

ORDER

IT IS THEREFORE ORDERED that the 2012 portion only of Morenci Water & Electric Company's proposed 2012-2013 REST Implementation Plan is approved as modified and discussed herein.

IT IS FURTHER ORDERED that Morenci Water & Electric Company shall file its 2013 REST Plan on the normal schedule, as dictated by A.A.C. R14-2-1813.

IT IS FURTHER ORDERED that the solar electric (PV) – residential incentive remain at \$4.00/watt and the cap on RESS collections for the non-residential class with loads greater than 3 MW be increased to \$500 per month.

IT IS FURTHER ORDERED that the REST budget amount for year 2012 is \$96,885.

IT IS FURTHER ORDERED that Morenci Water & Electric Company's request to exclude energy sales to the FMI mines from the calculation of both the Annual Renewable Energy Requirement under A.A.C. R14-2-1804 and the annual Distributed Renewable Energy Requirement under A.A.C. R14-2-1805 is granted for 2012.

IT IS FURTHER ORDERED that Morenci Water & Electric Company shall work cooperatively with FMI Morenci and FMI Safford to explore opportunities for customer-sited distributed generation facilities. Morenci Water & Electric Company shall prepare a

...

comprehensive report documenting these discussions. Said report shall be docketed with the Commission with Morenci Water & Electric Company's 2013 Implementation Plan.

IT IS FURTHER ORDERED that Morenci Water & Electric Company participate in the REST Format Working Group as discussed herein.

IT IS FURTHER ORDERED that Morenci Water & Electric Company file its RESS tariff in compliance with the Decision in this case within 15 days of the effective date of the Decision.

IT IS FURTHER ORDERED that this Decision shall become effective immediately.

BY THE ORDER OF THE ARIZONA CORPORATION COMMISSION

CHAIRMAN

COMMISSIONER

COMMISSIONER

COMMISSIONER

COMMISSIONER

IN WITNESS WHEREOF, I, ERNEST G. JOHNSON, Executive Director of the Arizona Corporation Commission, have hereunto, set my hand and caused the official seal of this Commission to be affixed at the Capitol, in the City of Phoenix, this _____ day of _____, 2012.

ERNEST G. JOHNSON
EXECUTIVE DIRECTOR

DISSENT: _____

DISSENT: _____

SMO:RBL:lhms/SH

1 SERVICE LIST FOR: Morenci Water & Electric Company
2 DOCKET NO. E-01049A-11-0265

3 Mr. Jason Gellman
4 Roshka DeWulf & Patten, PLC
5 One Arizona Center
6 400 East Van Buren, Suite 800
7 Phoenix, Arizona 85004

8 Mr. Steven M. Olea
9 Director, Utilities Division
10 Arizona Corporation Commission
11 1200 West Washington Street
12 Phoenix, Arizona 85007

13 Ms. Janice M. Alward
14 Chief Counsel, Legal Division
15 Arizona Corporation Commission
16 1200 West Washington Street
17 Phoenix, Arizona 85007
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